reason for the Commission to upset that balance by adopting a pure, per-line common line formula.

F. Baseline Issue 6 - Exogenous Costs

The Commission proposes to narrow the categories of cost changes that qualify for exogenous treatment to only those changes that affect "economic" costs.[39/] Although the Commission is correct that in unregulated markets companies base prices on economic, not accounting, costs, the conclusion is irrelevant. Exchange carriers' prices are regulated, and those prices are tied, at least historically, to accounting costs. Thus, unlike firms in unregulated markets, exchange carriers do not have the opportunity automatically to adjust their prices to reflect changes in accounting standards and the like, whether or not those changes affect underlying economic costs. Indeed, certain costs that unquestionably qualify for exogenous treatment today, *e.g.*, changes to the Uniform System of Accounts and the Separations Manual,[40/] affect only accounting costs. Yet, it is precisely because these regulatory-mandated accounting changes affect revenue flows -- even in the absence of any changes in underlying economic costs -- that the Commission concluded that exogenous treatment was

39/ *Id.*, ¶ 64.

40/ 47 C.F.R. §§ 61.45(d)(ii), (iii).

appropriate.[41/] Thus, the Commission's own analysis demonstrates that it should not narrow the categories of cost changes that qualify for exogenous treatment to those that only affect "economic" costs. Rather, the Commission should jettison the test it fashioned in the SFAS-106 investigation[42/] and reaffirm the test that it originally adopted.

G. Baseline Issue 7 - Service Quality

The Commission requests comment on whether it should revise or expand its existing service quality monitoring requirements.[43/] There is no reason for the Commission to do so. The Commission's monitoring requirements for exchange carriers are already extensive. Moreover, even as exchange carriers deploy new technologies and interconnect with other networks to a greater extent than they do today, the existing reporting requirements are sufficient to permit the Commission to continue to monitor service quality.

41/ Price Cap Second Report, 5 FCC Rcd. at 6807.

42/ See Treatment of Local Exchange Carriers' Tariffs Implementing Statement of Financial Accounting Standards, "Employers Accounting for Postretirement Benefits Other Than Pensions," CC Dkt. 92-101, Memorandum Opinion and Order, 8 FCC Rcd. 1024 (1993).

43/ Notice, ¶ 72.

In addition, the Notice provides strong evidence that exchange carriers have rapidly deployed new technologies under price caps[44/] and that service quality overall has increased under price cap regulation.[45/] Thus, there is no reason for the Commission to increase or expand its service quality monitoring requirements.

H. Baseline Issue 8 - New Services

For the reasons set forth above,[46/] the Commission should modify the price cap rules governing new services in the manner suggested by USTA.

I. Baseline Issue 9 - Regulatory Parity

As Rochester described above,[47/] the Commission should equalize the regulatory treatment of exchange carriers and their competitors.

In this respect, the Commission also requests comment regarding whether it should modify AT&T's price cap plan to require AT&T to flow through all changes in access rates, regardless of which access provider AT&T utilizes.[48/] The Commission should adopt this change. The current rules

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44/ Notice, ¶ 23.

45/ Id., ¶¶ 27-28.

46/ See supra at 15.

47/ See supra at 15-17.

48/ Notice, ¶ 86.

-- which require AT&T to flow through reductions in exchange carriers' access charges, but not those of competitive access providers -- create an unwarranted competitive imbalance. Because AT&T may keep any reductions in access charges that it pays to competitive access providers, the current rules provide AT&T with a strong incentive to utilize competitive access providers rather than exchange carriers. There is no justification for tilting the playing field in favor of competitive access providers in this manner.

J. Baseline Issue 10 - Sales and Swaps of Exchanges

The Commission requests comment on whether it should modify the process governing approvals of sales or swaps of exchanges.[49/] The Commission should decline to do so. Today, the Commission reviews such transactions on a case-by-case basis through the waiver process. To the extent that specific transactions raise concerns -- such as distortions to the Universal Service Fund -- the Commission may address those concerns in its evaluation of individual transactions.

K. Baseline Issues 11 and 12 - Other Issues; Coordination

The Commission correctly notes that, in addition to this proceeding, it has before it several other interrelated

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[49/] *Id.*, ¶¶ 88-89.

proceedings.[50] These include, *inter alia*, universal service fund reform, access charge reform and requests for a comprehensive review of the existing jurisdictional separations rules. The Commission should and must conduct these proceedings in a comprehensive and coordinated manner.

Also before the Commission, however, are proposals by individual companies designed to address their own unique circumstances. Included among these is Rochester's Open Market Plan.[51] The Commission should evaluate Rochester's plan on its own merits. The waivers that Rochester has requested are narrowly-tailored to the specifics of its Open Market Plan and essentially involve only the mechanics of billing common line charges. The requested waivers do not require a re-evaluation of either the Commission's price cap or access charge rules. That examination may take place in this and other, broader proceedings. The minor adjustments that Rochester seeks in connection with its Open Market Plan can remain consistent with whatever changes the Commission adopts in this proceeding. The Commission should evaluate Rochester's waiver requests separate and apart from its consideration of the broader issues raised in this proceeding.

50/ *Id.*, ¶ 91.

51/ *See supra* at 11 n.19.

III. THE COMMISSION SHOULD ADOPT A TRANSITION PLAN THAT BOTH RECOGNIZES COMPETITIVE CHANGE AND PRESERVES THE EFFICIENCY INCENTIVES OF PRICE CAPS.

The changes that the Commission adopts in this proceeding should include a framework for a transition to a less regulated environment. It should also preserve the efficiency incentives of price caps. Thus, any such plan should contain the transition mechanisms and should provide for a sufficiently long period of time for the plan and its transition mechanisms to remain in place.

The USTA access charge proposal meets these criteria. Under the USTA plan, specific services and geographic areas may become subject to less pervasive forms of regulation in response to objective, market-based criteria that demonstrate the existence of sufficient competition to warrant such treatment.[52/]

In addition to specifying the transition mechanism in the revised price cap plan itself, the Commission should provide a sufficiently long period for the plan to operate to preserve and enhance efficiency incentives. Frequent reviews have precisely the opposite effect, as the Commission has recognized[53/] and Strategic Planning Associates has

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52/ *See* Notice, ¶¶ 95-98 (Transition Issues 1-4).

53/ *Id*., ¶ 99 (Transition Issue 5).

confirmed.[54/] Thus, Rochester suggests that the Commission conduct its next performance review no earlier than seven years from the time that the revised plan goes into effect.

Conclusion

For the foregoing reasons, the Commission should act upon the issues contained in the Notice in the manner set forth herein.

Respectfully submitted,

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54/ *See supra* at 12.